

Discussion paper

**EUROPEAN EMPLOYMENT OBSERVATORY
GERMANY**

Economic recovery and budget consolidation

**Quarterly review of labour market trend and policies
2nd Quarter 2010**

by

Kurt Vogler-Ludwig

in cooperation with
Helene Giernalczyk
Luisa Stock

Munich June 2010

Contents

1.	Introduction.....	4
2.	Assessment of latest economic trends and latest labour market policies	4
2.1.	Economic and Labour Market Performance Information	4
2.2.	Employment implications of restructuring cases	6
2.3.	Recently implemented labour market policy measures.....	6
2.3.1.	Budget consolidation programme	6
2.3.2.	Reform of Jobcenters	7
2.3.3.	Uniform collective agreement principle abolished.....	7
3.	Recent labour market reports, surveys and other documentation	8
4.	Bibliography.....	9

Glossary

Business Foundation Allowance	<i>Gründungszuschuss</i> : New regulation of business foundation support for unemployed UB-I recipients for a period of 15 months at maximum (valid since 1 August 2006). During the first nine months, a lump sum of EUR 300 is paid in addition to UB-I as a contribution to social insurance costs. During the following six months the lump sum is continued to be paid only if the business became the main entrepreneurial activity.
Hartz reform	Reform of unemployment insurance under the Federal Employment Service (<i>Bundesagentur für Arbeit</i>) and active labour market policies, named after Peter Hartz, principal staff manager of Volkswagen and the president of the “Hartz Commission” established by the German government in 2002. The reform has four parts: Hartz I (2002): introduction of public temporary work agencies (Personnel Service Agencies – PSA) Hartz II (2002): reorganisation of public employment services; mini-jobs, ICH-AG Hartz III (2004): restructuring of public employment services to the Federal Employment Agency Hartz IV (2005): merger of unemployment aid and social assistance to UB-II
Midi-Jobs	<i>Midi-Jobs</i> : Registered employment with monthly wages between 401 and 800 € and reduced social insurance premiums.
Mini Jobs	<i>Geringfügige Beschäftigung</i> : Jobs with monthly incomes up to EUR 400. These can be regular or occasional jobs and jobs in addition to regular employment. Employers pay 30 % of wages to social insurance.
National Training Pact	<i>Nationaler Ausbildungspakt</i> : Agreement between the Federal Government and the employers’ associations to offer additional dual training places. The pact started in 2004.
Registered employment	<i>Sozialversicherungspflichtige Beschäftigung</i> : Employment contracts subject to public social insurance, i.e. dependent employment with salaries above 400 EURO per month.
Rehabilitation benefit	<i>Eingliederungszuschuss</i> : a wage subsidy for employers who employ long-term or disabled unemployed. Subsidies are limited to 50 % of wages for 12 months. For disabled or older workers the limits are 70 % of wages for a maximum period of 24 months.
Short-time work	<i>Kurzarbeit</i> : following articles 169 ff. SGB III, companies can apply for short-time work in the case of a considerable but temporary lack of work. At least one third of the work force must be endangered to lose at least 1/10 of the income. According to unemployment benefits workers receive 60 to 67 % of the omitting income. The maximum period is 18 months. Social insurance premiums are continued to be paid at the former levels. Employer contributions are subsidised by unemployment insurance.
Social benefits	<i>Sozialgeld</i> : non-employable persons in a subsistence-based partnership with at least one employable person receive social benefits. Above the age of 16 rates are equivalent to UB-II.
Subsistence-based partnerships	<i>Bedarfgemeinschaft</i> : These partnerships are defined by the Hartz-IV act as the private income and property units obliged to individual transfers among its members.
UB-I	<i>Arbeitslosengeld I</i> : Regular unemployment benefits for singles provide 60 % of the last net income for 12 months. For parents the rate is 67 %. The regulation is included in Social Code Book III (SGB III).
UB-II “Hartz-IV”	<i>Arbeitslosengeld II</i> : Means-tested basic income for job seekers, paid after expiration of regular unemployment benefit. The basic rate is 351 EURO per month. The regulation is included in Social Code Book II (SGB II). This is also known as basic income benefit.
1 € Jobs Auxiliary public jobs	<i>Ein-Euro-Jobs</i> : Temporary jobs for UB-II recipients in the field of social and public services. They are remunerated by EUR 1 or 2 in addition to UB-II benefits. Jobs need to be for the public benefit and have to be additional to jobs in the premier labour market.

1. Introduction

In the second quarter 2010 GDP expectations brighten and the German labour market remained resistant against negative economic impacts. Labour market stability was mainly achieved by short-time working arrangements and working time flexibility of collective agreements or company arrangements. The decrease of short-time workers of 45 % compared to its peak in May 2009 nevertheless points to the strength of the economic upswing.

The Federal Government published its consolidation plans of public households in June 2010. Public deficits are planned to be reduced by € 81.8 bn between 2011 and 2014. 37 % of cost savings will result from reduced social benefits and family transfers. The programme strongly relies on the expectation of a continued recovery and the activation of the labour force.

2. Assessment of latest economic trends and latest labour market policies

2.1. Economic and Labour Market Performance Information

Economic performance

After the worldwide financial and economic crisis caused a slump of GDP by 5 % in 2009, the German economy has started to recover: in the first quarter of 2010 GDP grew by 0.6 %, (after - 1.7 % in IV/2009) and a further increase is expected for the second quarter of 2010. Exports and the restocking of the manufacturing industry had a strongly positive effect while private consumption still burdened performance in I/2010. Agile domestic and international ordering activities in the manufacturing industry and construction industry point to the continuation of economic recovery (Ministry of Economics, 18.06.2010).

Table 1 Economic and labour market indicators

Indicator	Current value		Change to previous year
	Month	Value	
Employment	April 10	40.12 million	-14,000
Registered employment	March 10	27.38 million	+47,000
Unemployment	May 10	3.24 million	-217,000
Regular unemployment (among persons eligible for UB-I)	May 10	1.04 million	-159,000
Regular unemployment (among persons eligible for UB-II)	May 10	2.2 million	- 58,000
Unemployment rate	May 10	7.7 %	-0.5 pp
ILO unemployment rate (seasonal adj.)	April 10	7.1 %	-0.6 pp
Short-time workers	March 10	830,000	-429,000
Vacancies	I/10	843,000	-3 %
Quarterly working hours per employee	I/10	339.8	+1.5 %
Monthly gross salary per employee (€)	I/10	2,210	+1.3 %
GDP (constant prices)	I/10		+0.6 %
Inflation	April 10		+1.0 %
GfK Consumer climate index	May 10	3.7	Index May 09: 2.6
Ifo Business climate (2000 = 100, seasonally adjusted)	May 10	101.5	Index May 09: 84.3
Labour productivity per employee (index 2000=100)	I/10	101,94	+2.0 %

Note: pp = percentage points

Source: Agentur für Arbeit (2010), Statistisches Bundesamt (2010), Ifo Institute, GfK, Economix

Business expectations of enterprises continuously improved within the last year. The ifo business climate index rose from 84.3 points in May 2009 to 101.5 in May 2010. One can see the severity of the crisis in these changes and the relief that things are improving now.

The German Federal Bank recently published an optimistic GDP forecast of 1.9 % in 2010. In 2011 a lower growth of 1.4 % is expected due to declining fiscal stimuli. Unemployment could slightly increase

but the overall situation on the labour market is expected to remain robust. However, these expectations are formulated under the assumption that insecurities on the financial market remain limited.

Labour market performance

In May 2010 the number of registered employment started to rise by 0.2 % to 27.38 million. This is a real sign of the resistance of the German labour market against the negative economic shock in 2009. The labour force remained almost untouched by the crisis, thanks to the public expenditure programmes worldwide and the flexibility of the working hours. The effect of the financial crisis on the labour market thus has been moderate. The unemployment rate decreased by 0.5 % in May 2010. This was influenced by an increase of the number of part-time employees (+190,000), while the number of full-time employees decreased by 140,000.

According to economic forecasts the unemployment rate is expected to be around 8 % on average in the next year, compared to 7.5 % this year. Reasons for this forecast is a combination of wage restraints in years before the crisis, more flexible working time agreements, and the continuation of favourable short-time work arrangements (Institut für Weltwirtschaft 2010 and Handelsblatt (HB) 18.06.2010). Overall a lack of specialised workforce is expected.

Public short-time work schemes considerably helped to preserve jobs. The number of short-time workers peaked in May 2009 with around 1.5 million people in short-time work. In March 2010, around 830,000 short time workers were reported by the Federal Labour Agency – a decline by 45 %.

Besides effective short-time allowances a growing number of self-employed is eye-catching. In 2009 the amount of business start-ups increased after a period of declining foundations since 2004. Around 412,600 businesses were founded which was an increase of 3.3 % compared to 2008. The re-increase of business foundations is caused by the difficult situation to find jobs during the financial and economic crisis. Especially the access in promoted foundations for unemployed rose and totalled to 20 % of all founders in 2009. Around 4.2 million people are self-employed in Germany. This equals to 11 % of the labour force (Institut für Mittelstandsforschung, Bonn, 2010).

Collective agreements

On the German labour market minimum wages are agreed for about 2 million employees in a few sectors, thereof 800,000 in the building cleaning sector and almost 700,000 in the construction sector. According to the Federal Government's response to a parliamentary request of the opposition party *Die Grünen*, a substantial number of companies violate minimum wage regulations. In 2009 there were 1,450 actions against companies in the construction sector which do not pay the agreed minimum wage and 200 in the building cleaning sector. 6,500 civil inspectors from the customs authority are responsible for the control minimum wages. In 2010 150 additional inspectors will be employed, what is not enough according to trade unions and *Die Grünen* when we consider the adoption of minimum wages for further 800,000 nursing and health occupations in August 2010 (Süddeutsche Zeitung 25.06.2010 and Ministry of Labour and Social Affairs 2010).

Parental allowance

Regarding the alignment of working life and family the Family Report 2010 of the Federal Ministry of Family Affairs (2010) showed that the parental allowance (*Elterngeld*) partly supports the re-entry of mothers in the labour market. 58 % of mothers who received the allowance were employed before their children were born. 62 % of these and 18 % of previously unemployed mothers were again employed after 2 years. Around 18.6 % of fathers also receive parental allowance in 2009 which was an increase of 16.1 % compared to 2008. The majority of them (75 %) however only claimed the benefits for 2 months.

However, the most important point to facilitate the re-entry into the labour market of mothers is mainly dependent on the availability of childcare facilities. Around 2/3 of parents assess the supply of childcare as being inadequate. 41% complain about too few care centres, for 35 % the expenses are too high and 29 % assess the open hours being inflexible. Therefore expansion of child care facilities is crucial and needs to develop.

2.2. Employment implications of restructuring cases

The number of severe restructuring cases decreased as the expectations of enterprises have brightened. However, some enterprises plan to reduce the workforce, such as the pharmaceutical company Stada which plans to cut 800 jobs (10 % of workforce) within the next five years. Moreover, Heidelberg Druck announced to cut 850 further jobs (about 4 % of workforce) this year, after a reduction of 4000 employees in the last year (HB 15.06.2010 and 08.06.2010). On the contrary the employer association of the metal industry announced that the recent forecast of 50,000 job losses in its industry in 2010 will be lower (HB 18.06.2010). According to the association 28 % of the 815,000 employees in the metal and electricity industry have been rescued by short-time work and 7 % by other forms of reduced working time during 2009. 64 % of employees were secured because companies accepted productivity and income reductions.

Karstadt

After the bankruptcy of Acandor in June 2009 its subsidiary company Karstadt GmbH had to close 13 department stores in Germany by spring 2010 (EEO Quarterly Report December 09). The remaining 120 department stores of Karstadt should be sold. An investor Nicolas Berggruen is interested in purchasing the 120 department stores. However, there are disagreements with the main landlord Highstreet and the purchase is not decided yet. Thus, the future of 25,000 employees is still unclear. The negotiations about the rent will be continued and an agreement can be expected within the next weeks (HB 09.06.2010 and 24.06.2010).

2.3. Recently implemented labour market policy measures

2.3.1. Budget consolidation programme

Description

On 8 June 2010 the Federal Government released its plans for budgetary consolidation. Public deficits will be reduced by € 81.8 bn¹ between 2011 and 2014. 35 % of the sum will come from the cut of subsidies and additional financial levies on companies, 37 % will result from reduced social benefits and family transfers and 28 % will be achieved by lower public investment and administrative costs (Table 2).

The consolidation programme has a strong focus on social benefits and family transfers which will have to contribute 37 % of the overall savings. The major contribution will come from unemployment insurance and be achieved in three areas: (1) the cut of active labour market policy programmes (e.g. the business foundation allowance). Many of these programmes will become optional and thus depend on the budgetary constraints. (2) the cut of contributions to pension insurance for UB-II recipients. (3) efficiency gains in placement services. The programme intends to improve work incentives, and thus contribute to consolidation by the rise of social contribution payments and taxes. Minor contributions come from lower family transfers.

Table 2 German budget consolidation programme 2011-14
Expected reduction of federal budget in € bn

	2011	2012	2013	2014	Total	
					€ bn	%
Cut of subsidies, levies on companies	5.3	7.8	7.8	7.8	28.7	35.1
Social benefits and family transfers	3.0	7.0	9.4	10.9	30.3	37.0
Public investment and administration	2.9	4.4	6.6	8.9	22.8	27.9
Total	11.2	19.2	23.8	27.6	81.8	100.0

Source: German Federal Government (2010).

Not only the left-wing parties criticise the programme as being socially unbalanced: even the Council of Economic Advisers in the government party CDU (Christian Democratic Union) suggest higher income tax rates for top earners in order to involve all population groups in budgetary consolidation. This view is shared by the trade unions (DGB) and the opposition parties (SPD, *Die Linke*, *Bündnis 90/Die Grünen*). Some of them urge for the introduction of a transaction tax on

¹ Recent tax revenue forecasts reduced the net borrowing amount to € 60 bn.

capital markets and the reintroduction of a property tax. The economic research institutes argue for stronger cuts of subsidies, and employers associations advise against being too restrictive as this may curb economic growth (HB 10.06.2010).

Consistency with long term Europe 2020 targets and Employment Guidelines 7 and 8

The programme is also criticised for being unsustainable. The cut of tax contributions to pension insurance for UB-II recipients e.g. is expected to lead to rising poverty among pensioners. The reduction of active labour market policies may hamper integration, and the expected efficiency gains in public placement services remain highly uncertain. Moreover, the idea to create financially independent unemployment insurance will require higher contribution rates with corresponding negative employment effects.

A certain consensus appeared among policy observers that this will not be the last consolidation programme. Further budgetary pressures will force the coalition partner FDP (Free Democratic Party) to agree to higher taxes.

Effectiveness of countering the impacts of the crisis

The programme is necessary for budgetary consolidation after the expansion of public spending for economic stimulus packages within the last two years.

2.3.2. Reform of Jobcenters

Description

On 17.06.2010 the opposition party SPD (Social Democratic Party) agreed with the governing parties CDU/CSDU and FDP to reform Jobcenters which support long-term unemployed. A change of the constitution became necessary because the legal cooperation between Federal Government and municipalities regarding Jobcentres has been declared as unconstitutional. The German Federal Council (*Bundesrat*) will decide about the constitutional amendment on 9th July 2010.

Besides the continuation of the existing organisation of job placement services, the reform permits further cooperation between the Federal Labour Agency and municipalities. This guarantees the provision of services for unemployed in a one-stop-shop. The number of so called Option Councils (*Optionskommune*) in which only the municipalities are responsible for the support of long-term unemployed will be raised from currently 69 to 110. Transparency will be increased by target agreements on a federal level (Ministry of Family and Social Affairs 17.06.2010). In addition the SPD accomplished that 3,200 temporary contracts of Jobcenter employees were changed into permanent contracts (HB 16.06.2010).

Consistency with long term Europe 2020 targets and Employment Guidelines 7 and 8

The Jobcenter reform is in line with Guideline 7 as it helps to increase labour market participation. Efficient support of long-term unemployed from one single source is necessary to facilitate their re-entry into the labour market. The new regulation is an amendment changed the responsibilities rather than the contents of active labour market policies.

2.3.3. Uniform collective agreement principle abolished

Description

On 23.06.2010 the Federal Labour Court terminated the principle of uniform collective agreements ("one company – one collective agreement"), which was in force for decades in Germany. Thus, the de facto quasi-monopoly of German Confederation of Trade Unions (DGB) and its members Verdi, IG Metall etc. is broken. The reasons for the abolishment were disadvantages for smaller trade unions. Hence several collective agreements can exist within one company and competition between trade unions will increase.

Some employers and politicians are terrified that the liberalisation could result in more strikes and an increased number of smaller trade unions for particular groups of employees, as it is already the case at Deutsche Bahn and Lufthansa. The President of the Confederation of German Employers (BDA) compared the situation with England in the seventies, when persistent labour dis-

putes largely paralysed the economy (HB 23.06.2010 and 24.06.2010).

As the principal of uniform collective agreements is seen as a fundamental element of wage autonomy and social partnership in Germany, the German Confederation of Trade Unions (DGB) and the Confederation of German Employers (BDA) want to regulate the principal of uniform collective agreements by law. The Social Democratic Party and the Christian Democratic Union want to sustain the principle of uniform collective agreements, and some politicians even think about the change of the constitution.

Consistency with long term Europe 2020 targets and Employment Guidelines 7 and 8

If and how the uniform collective agreement principle can be maintained is unclear at the moment. So far the Federal Ministry of Labour and Social Affairs announced to scrutinise the adjudication carefully. One argument for maintaining the former principle is that the moderate collective agreements for example in the metal industry in the beginning of 2010 were helpful to stabilise jobs during the financial and economic crisis. The counter argument however is that the constitution guarantees the freedom of creating collective associations for all groups (Article 9 of the German *Grundgesetz*).

3. Recent labour market reports, surveys and other documentation

Federal Ministry of Education and Research (2010): Bildungsbericht Deutschland 2010 (Education in Germany 2010) [web]

The study presents current developments in the German education system and the impact of demographic changes. Different subjects are comprehensively described such as the conditions of education, education supply, personnel resources, transitions between different stages of education, and the returns of education. The report particularly reveals the following results caused by demographic changes:

- All in all the number of participants in education will decrease by 15 % until 2025 due to demographic changes.
- The amount of study beginners in 2025 will almost remain at the same level of the last 10 years and will total to around 350,000 – approximately as many as in 2006.
- The supply of skilled workers will decrease by 2 million persons while the demand for skilled workers in 2025 will remain equal compared to today (21 million). Thus the demand will roughly meet the supply on a quantitative level. However a lack of qualification cannot be excluded.
- Low-skilled workers without completed vocational education will have difficulties to find a job as the supply of low-skilled workers is expected to exceed the demand by 1.3 million people in 2025.

According to recently published labour market scenarios for 2020 and 2025 (IAB, Fuchs/Zika 2010), there will be a further increase of employment in the service sector and a decrease in the manufacturing industry. Under-employment (unemployment and hidden reserves) will significantly shrink to 1.5 million persons in 2025.

Goebel, J. M. Gornig, and H. Häußermann: Polarisierung der Einkommen (2010): Die Mittelschicht verliert (Income development in Germany: The middle class is losing), Deutsches Institut für Wirtschaftsforschung, DIW Weekly Report 24/10, June 2010. [web]

In this study the distribution of income in Germany is examined. According to the DIW the inequality between rich and poor was increasing since reunification and has now reached its top-level. The amount of households with low incomes, which is defined by a net income below € 1978 for a household with two adults and two children, is rising. At the same time the average net income of this group is declining. While the average amounted to € 680 in 2000 it was € 645 in 2009. On the other hand the number of households with higher incomes, defined by net incomes above € 4243 for a household with two adults and two children, increased and its average net income coincidentally rose from € 2,400 in 2000 to € 2,700 in 2009. Due to the development of higher and lower income groups the middle class declined from 66 % in 2000 to 60 % in 2009. This development can – according to the authors – impact the social stability negatively. Moreover, it is expected that this development is part of a long-term trend which will exacerbate the situation in the future.

According to the results of study by the Wissenschaftszentrum Berlin (WZB, 2010), the problem

of increasing poverty is enforced by the German school and education system. The study reveals that there are a growing number of children who are selected and taught at so-called special schools rather than at regular schools. The segmentation takes place due to disabilities or learning difficulties such as concentration problems or delayed linguistic development. According to the study around 500,000 young persons are certified as needy of special promotion treatment. In most cases these young people come from families with low income, unemployed parents or migration background. Most of them (80 %) leave this kind of school without any completed graduation which causes lower chances for them to be integrated into working life. The segmentation raises the possibility to have a lower education level and to have a higher risk to become poor. Thus, a vicious cycle is created for children of families with low-income or migration background.

4. Bibliography

Federal Ministry of Economics and Technology (2010): Die wirtschaftliche Lage in der Bundesrepublik Deutschland im Juni 2010, 18.06.2010 [\[web\]](#)

BMAS – Federal Ministry of Labour and Social Affairs (2010): Jobcenter Reform [\[web\]](#)

BMAS – Federal Ministry of Labour and Social Affairs (2010): Antwort auf kleine Anfrage der Abgeordneten Beate Müller-Gemmeke u.a. und der Fraktion BÜNDNIS 90/DIE GRÜNEN betreffend „Kontrolle von Mindestlöhnen“, BT-Drs. 17/1947

BMFSFJ – Federal Ministry of Family Affairs (2010): Familien Report 2010 [\[web\]](#)

Federal Labour Agency (2010): Der Arbeits- und Ausbildungsmarkt in Deutschland – Mai 2010 (Labour and training market in Germany - May 2010), Nürnberg. [\[web\]](#)

Fuchs J. a. Zika G. (2010): Arbeitsmarktbilanz bis 2025, Demografie gibt die Richtung vor, IAB - Kurzbericht 12/2010

German Federal Bank (2010): Perspektiven der deutschen Wirtschaft – Gesamtwirtschaftliche Vorausschätzungen 2010 und 2011 (Perspectives for the German economy – macroeconomic forecasts for 2010 and 2011), Monatsbericht Juni 2010 [\[web\]](#)

German Federal Gouvernement (2010): Die Grundpfeiler unserer Zukunft stärken. Acht Punkte für solide Finanzen, neues Wachstum und Beschäftigung und Vorfahrt für Bildung.

Institut für Weltwirtschaft (2010): Deutschland: Konjunkturelle Erholung setzt sich in verlangsamtem Tempo fort - Gefahr eines Rückschlags durch die Schuldenkrise, Press Release [\[web\]](#)

KfW - Kreditanstalt für Wiederaufbau (2010): „Gründermonitor 2010“ [\[web\]](#)

Pfahl L. (2010): Organisierte Armut: Soziale Ausgrenzung im gegliederten Schulsystem (Organised overtory: social exclusion in the school system), WZB Mitteilungen 128, June 2010

Statistisches Bundesamt (2010): VGR des Bundes - Inlandsproduktsberechnung - Vierteljahresergebnisse - Fachserie 18 Reihe 1.2; 1. Vierteljahr 2010, Mai 2010, Wiesbaden. [\[web\]](#)

Web links:

Ifo business climate Germany [\[web\]](#)

GfK consume climate indicator [\[web\]](#)

HB – Handelsblatt [\[web\]](#)

Institut für Mittelstandsforschung Bonn [\[web\]](#)